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UNITED STATES DEPARTMENT OF AGRICULTURE
Commodity Stabilization Service
Washington 25, D.C.

February 2, 1955

DAIRY PRICE SUPPORT FOR THE 1954-55 AND 1955-56 MARKETING YEARS

Introduction

The Commodity Credit Corporation supports prices of milk and butterfat as required by the Agricultural Act of 1949. Support is accomplished through purchases of dairy products--butter, Cheddar cheese, and nonfat dry milk solids--during specified marketing years. The marketing year for dairy products is a 12-month period extending from April 1 of one year through March 31 of the following year.

This statement describes the way in which milk and butterfat support levels were established and purchase prices for dairy products determined for the 1954-55 and 1955-56 marketing years. The discussion of the 1955-56 program begins on page 7.

The 1954-55 Program

The Secretary of Agriculture announced on February 15, 1954, that the dairy price support level for the marketing year beginning April 1, 1954, would be 75 percent of parity which is the legal minimum level required by the Agricultural Act of 1949. The Department announced, on February 18, 1954, the dollars-and-cents levels of support for milk and butterfat and stated that support would be carried out through offers to purchase butter, Cheddar cheese, and nonfat dry milk solids in carlots at specified prices. On July 7, 1954, the Department announced slight upward revisions of the manufacturing milk and butterfat support prices and increases of 1 cent per pound in the purchase prices for cheese and nonfat dry milk solids.

The originally announced support prices were \$3.14 per hundredweight of manufacturing milk (of 3.95 percent yearly average test) and 56 cents per pound of butterfat in farm-separated cream--both national averages. The July 7 revisions brought the support levels to \$3.15 for manufacturing milk and 56.2 cents for butterfat.

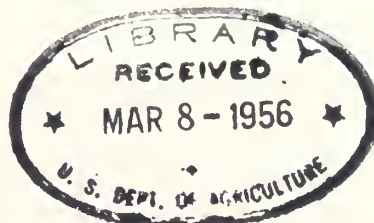


Table 1 shows the originally announced and the revised 1954-55 purchase prices of butter, Cheddar cheese, and nonfat dry milk solids.

Table 1.- Purchase prices of butter, Cheddar cheese and nonfat dry milk solids as originally announced and as revised, at specified markets, by product, 1954-55

Commodity	Description	Market	Price (cents per pound)	
			As originally announced	Revised, effective July 12, 1954
Butter	U.S. Grade A or higher	Chicago	57.50	57.50
		New York ^{1/}	58.25	58.25
		San Francisco	57.50	57.50
		Seattle	57.50	57.50
	U.S. Grade B	Chicago	55.50	55.50
		New York ^{1/}	56.25	56.25
		San Francisco	55.50	55.50
		Seattle	55.50	55.50
Cheddar cheese	U.S. Grade A or higher	United States	32.25	33.25
Nonfat dry milk solids	U.S. Extra Grade Spray Process	United States	15.00	16.00
	Roller Process	United States	13.25	14.25

^{1/} The New York market includes Jersey City, N.J., for purposes of this program.

The price of butter offered at any point other than the four markets--Chicago, New York, San Francisco, and Seattle-- is the price at the designated market named by the seller, less 80 percent of the lowest published domestic railroad carlot freight rate per pound gross weight from the offer point to the designated market.

The purchase prices are for assembled carlots of graded dairy products, offered in accordance with detailed purchase announcements.

The area and grade differentials in the CCC purchase prices are the same as those under the 1953-54 program except in two cases, as follows: (1) The prices are the same for Seattle and San Francisco as those for Chicago instead of 1 cent more than the Chicago price as under the previous program; and (2) the price differential between spray and roller nonfat dry milk solids is 1.75 cents per pound instead of 2 cents.

The revised support prices for 1954-55 are based on parity data published in the March issue of Agricultural Prices. The March parity price of butterfat in farm-separated cream was 75 cents per pound. The parity price was computed, as usual, by multiplying the adjusted base price of 26.5 cents by the March parity index of 283 which was the index of prices paid by farmers for commodities and services, interest, taxes, and wage rates in that month. Seventy-five percent of 75 cents is the revised national average support price of 56.2 cents per pound of butterfat.

The revised support price for manufacturing milk is 75 percent of the March 1954 parity equivalent price. This parity equivalent price was computed as 88.5 percent of the parity price for all milk sold at wholesale by farmers to manufacturing plants and fluid milk dealers--the same relationship that had been used since early 1949. ^{1/} The March parity equivalent price was \$4.20 per hundred pounds and 75 percent of the parity equivalent price is the revised national average support price of \$3.15 for 1954-55.

The prices at which Commodity Credit Corporation would offer to buy butter, cheese, and nonfat dry milk solids were intended to enable manufacturers to pay prices to producers for milk and butterfat that, on a national average basis, would equal the support prices. In estimating the purchase prices, the relationships between market prices of the products and the U.S. average prices of butterfat and manufacturing milk in recent years were taken into account. The purchase prices of nonfat dry milk and cheese were increased, effective July 12, 1954, in order to strengthen the support for manufacturing milk. This action was taken because the legal minimum support level was revised upward slightly and because the reported U.S. average prices were below the intended support level during the first 3 months of the marketing year.

Butter and butterfat prices.-- The CCC purchase prices for butter were intended to result in a U.S. average farm price of butterfat in farm-separated cream equal to the announced support level. As an aid in estimating the necessary purchase prices of butter, the spreads between the Chicago wholesale prices of Grade A butter and the U.S. average farm prices of an equivalent quantity of butterfat in recent years were determined. Approximately 0.82 of a pound of butterfat in farm-separated cream is used in making a pound of butter. The yearly average processing and marketing margins as indicated by the differences between 0.82 of the U.S. average prices per pound of butterfat in farm-separated cream and the wholesale price per pound of butter (Grade A) at Chicago from 1949 through 1953 are shown in Table 2.

^{1/} A revised method of calculating the parity equivalent price for future use was published in the April 1954 issue of Agricultural Prices (p. 17) Agricultural Marketing Service, U.S. Department of Agriculture.

Table 2.- Average processing and marketing margins between 0.82 of the U.S. average price per pound of butterfat in farm-separated cream and the wholesale price per pound of butter (Grade A) at Chicago, by years, 1949-53

Year	Butter 1/ (Grade A) per pound at Chicago	Butterfat per lb. 2/ rated cream	Average per lb. 0.82 lb. in farm sepa- ing margin	Average per sing and market-
	Cents	Cents	Cents	Cents
1949	61.1	62.1	50.9	10.2
1950	61.7	62.2	51.0	10.7
1951	69.2	71.3	58.5	10.7
1952	72.2	75.2	61.7	10.5
1953	65.9	65.9	54.0	11.9
Average	66.0	67.3	55.2	10.8

1/ Dairy and Poultry Market Statistics and compilations from daily market news reports, Agr. Mktg. Serv., U.S. Dept. of Agr.

2/ Simple (unweighted) averages of monthly prices published in monthly issues of Agricultural Prices, Agr. Mktg. Serv., U.S. Dept. of Agr.

The average processing and wholesale marketing margin increased from 10.2 cents in 1949 to 11.9 cents in 1953. The corresponding difference between 0.82 of the revised 1954-55 support price of butterfat and the announced purchase price of 57.5 cents per pound for Grade A butter at Chicago is 11.4 cents ($0.82 \times 56.2 = 46.1$) ($57.5 - 46.1 = 11.4$).

Butter, nonfat dry milk solids, and manufacturing milk prices.--- As an aid in estimating the necessary CCC purchase prices for nonfat dry milk solids that, together with the above-determined purchase prices for butter, would result in a U.S. average price of manufacturing milk equal to the support price, the processing and marketing margins between gross wholesale market values of the quantities of butter and nonfat dry milk that can be made from a hundred pounds of milk and the U.S. average prices of manufacturing milk in recent years were calculated. For this purpose the Chicago wholesale prices of Grade A butter and the following U.S. average manufacturers' selling prices of spray and roller nonfat dry milk solids were used: 2/

2/ Milk Production on Farms and Statistics of Dairy Plant Products, 1953, Agr. Mktg. Serv., U.S. Dept. of Agr.

Year	Average price of spray and roller nonfat dry milk solids <u>Cents per lb.</u>
1949	12.0
1950	11.9
1951	14.4
1952	16.2
1953	<u>15.2</u>
Average	13.9

A hundred pounds of manufacturing milk of 3.95 percent butterfat yields about 4.82 pounds of butter and 8 pounds of nonfat dry milk solids. The gross wholesale values of these products calculated on the basis of such yields and the indicated market prices from 1949 through 1953, together with the yearly average processing and marketing margins or differences between the gross wholesale values of the products and the prices paid farmers for milk, are shown in Table 3.

Table 3.- Average processing and marketing margins between the market prices of manufacturing milk and the gross wholesale value of the processed products, by year, 1949-53

Year	: Manufacturing : milk <u>1/</u>	: Gross wholesale : value <u>2/</u>	: Processing and : marketing margin : <u>3/</u>
	: <u>Dollars per cwt.</u>	: <u>Dollars per cwt.</u>	: <u>Dollars</u>
1949	: 3.14	: 3.91	: 0.77
1950	: 3.21	: 3.92	: .71
1951	: 3.91	: 4.49	: .58
1952	: 4.10	: 4.78	: .68
1953	: 3.55	: 4.40	: .85
Average	: 3.58	: 4.20	: 0.72

- 1/ "Milk Production on Farms and Statistics of Dairy Plant Products, 1953," Agr. Mktg. Serv., U.S. Dept. of Agr.
- 2/ The sum of 4.82 times the price of U.S. Grade A butter at Chicago and 8 times the U.S. average price of spray and roller of nonfat dry milk solids.
- 3/ The difference between the gross wholesale value and the manufacturing milk price.

The yearly margins ranged from 53 to 85 cents and averaged 72 cents. The margin in 1953 was 85 cents. The difference between the revised support price for manufacturing milk and the gross wholesale value of butter and nonfat dry milk solids (at the revised purchase prices for nonfat dry milk solids) is 87 cents.

The revised 1954-55 support price of \$3.15 for manufacturing milk plus an average processing and marketing margin of 87 cents results in a gross market value of \$4.02 for butter and nonfat dry milk solids. The market value of 4.82 pounds of butter that can be made from a hundred pounds of milk at the announced purchase price of 57.5 cents per pound is \$2.77. This leaves \$1.25 to be obtained from 8 pounds of nonfat dry milk solids that can be produced from 100 pounds of milk, or an average price of 15.6 cents per pound for spray and roller nonfat dry milk solids. With an estimated production of about 4/5 spray and 1/5 roller, the revised purchase prices of 16 cents for spray and 14.25 cents for roller nonfat dry milk solids corresponds to a weighted average of about 15.6 cents per pound.

Cheese and manufacturing milk prices.-- The average price of assembled carlots of Wisconsin State Brand (same as U.S. Grade A) Cheddar cheese (Cheddar styles), f.o.b. Wisconsin assembling points, compared with U.S. average prices of manufacturing milk, from 1949 to 1953 is shown in Table 4.

Table 4.-- Comparative average prices of
Cheddar cheese and U.S. prices of
manufacturing milk, by year
1949-53

Year	Average price of manufacturing milk per cwt.	Average price of cheese 1/ per lb.	Cheese as percentage of milk
	Dollars	Cents	Percent
1949	\$3.14	31.5	10.03
1950	3.21	31.9	9.94
1951	3.91	38.9	9.95
1952	4.10	40.3	9.83
1953	3.55	37.2	10.48
Average	3.58	36.0	10.05

1/ Dairy and Poultry Market Statistics and compilations from daily market reports, Agr. Mktg. Serv., U.S. Dept. of Agr.

The cheese price ranged from 9.83 to 10.48 percent of the U.S. average price of manufacturing milk from 1949 to 1953, averaging 10.05 percent for the 5 years. It was 10.48 percent in 1953. The revised purchase price is 10.5 percent of the revised 1954-55 support price for manufacturing milk.

Actual compared with support prices.--- Compared with the revised support price of 56.2 cents per pound, the reported U.S. average prices of butterfat averaged 56.6 cents for the first 10 months (April-January) of the 1954-55 marketing year. The price ranged from 55.7 cents in midsummer to 58.1 cents in December.

The announced support price for manufacturing milk is for milk of 3.95 percent butterfat which approximates the yearly average test. Currently, reported prices are adjusted for the seasonal variation in test to a 3.95 percent basis for comparison with the announced support price. Compared with the revised support price of \$3.15, the reported U.S. average prices of manufacturing milk, adjusted to a 3.95 percent basis, averaged \$3.16 for the first 10 months of the 1954-55 marketing year. The price ranged from \$3.03 in early summer to \$3.27 in November.

The price support program is intended to support the general levels of prices to producers for butterfat and manufacturing milk, and to assure national average prices equal to the announced support levels. The program does not guarantee a uniform price for every farm or locality or for milk going into particular uses, and it does not fix the operating margins of processing plants. There normally are differences in prices received by farmers and in processing margins associated with such factors as quality and use of milk and dairy products, location relative to market outlets, volume and efficiency of plant operations, and degree of competition. The support program does not significantly change these relationships. The competition among farmers and among processing plants and other factors will continue to determine each individual's returns, while the support program maintains the general levels of prices at the support level.

The 1955-56 Program

The Secretary of Agriculture announced on January 13, 1955 that the support prices to producers for milk and butterfat in the marketing year beginning April 1, 1955 would be the same as for the current marketing year, that is, 3.15 per hundredweight for manufacturing milk and 56.2 cents per pound for butterfat. It was estimated at the time of the Announcement that these support prices would approximate 80 percent of the modernized parity equivalent price for manufacturing milk and 77 percent of parity for butterfat at the beginning of the marketing year. The same dollars and cents support prices were expected to represent higher percentages of the parity equivalent and parity prices for the 1955-56 marketing year than the current 75 percent level because of changes in the parity data which were expected to result in slightly lower parity prices for milk and butterfat at the beginning of the 1955-56 marketing year than a year earlier.

The parity index decreased from 283 in March 1954 to 279 in December 1954. The parity index for January 1955, (published in Agricultural Prices on January 28 after the support announcement was made) increased to 283 and was the same as in March 1954, the beginning of the current marketing year. The base period prices for both milk and butterfat to be used in the 1955 parity

calculations, however, are slightly lower than a year ago. The published parity prices of both wholesale milk and butterfat in January were slightly lower than in March 1954. Parity prices in March 1955 will depend upon the March parity index.

If the parity price of butterfat does not change from January to March the 1955-56 support price of 56.2 cents a pound will represent 76 percent of parity instead of 77 percent as estimated at the time of the January 13 announcement.

A revised method of calculating the parity equivalent price for manufacturing milk to be used in connection with future price support programs was announced in the April 1954 issue of Agricultural Prices. The method previously used was based on the ratio of the U.S. average price of manufacturing milk to the U.S. average price of all milk at wholesale in the $2\frac{1}{2}$ years between the end of price controls on June 30, 1946, and the first announcement of the parity equivalent method in early 1949. That Announcement indicated that the method would be subject to revision as additional data became available. The revised method provides that the parity equivalent price for manufacturing milk will be computed on the basis of the average relationship for the period July 1946 through the last December until a period of 10 years has elapsed and thereafter on the basis of the average relationship in the last 10 calendar years. This will make it a 10-year moving average ratio. The ratio used before April 1, 1954, was 88.5 percent. The ratio in effect from April to December 1954, was 84.1 percent. The ratio to be used in 1955 is 83.7 percent. If the parity price of all milk at wholesale is the same in March as in January 1955, the parity equivalent price of manufacturing milk at the beginning of the 1955-56 marketing year will be \$3.93 per hundredweight and the support price of \$3.15 will represent 80 percent of this parity equivalent price.

It also was announced on January 13 that the 1955-56 price support to producers for milk and butterfat would be carried out by purchases of butter, Cheddar cheese and nonfat dry milk solids at the same prices as in the 1954-55 program (effective July 12, 1954). Purchases at these prices resulted in supporting producer prices at the announced support level in the 10-month period April-January 1954 when the price of manufacturing milk (adjusted for seasonal variation in butterfat test to a 3.95 percent basis) averaged \$3.16 per hundred pounds and the price of butterfat averaged 56.6 cents per pound.